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ABSTRACT

Deferred giving in higher education is the practice of making a gift to an institution during one's lifetime while continuing to receive income from that donated asset. The history of the practice and the reasons for its value to donors and institutions are outlined. Options for annuity and life income plans are discussed: gift annuity, deferred gift annuity, pooled fund life income plan, and charitable remainder trusts (unitrust, net income unitrust, annuity trust, and term certain annuity trust). The various tax advantages and considerations are described: the charitable deduction, capital gains tax, gift tax liability, and estate tax. The possible forms of gifts listed are: cash, stocks or bonds, tax exempt bonds, tangible personal property, and real estate. Highlighted are the institutional requirements for starting a deferred giving program: consideration for each type of plan, the importance of staff, institutional commitment, written policies, and authority and responsibility resting with the board of trustees. Suggestions are given for marketing the annuity and life income program. The preliminary considerations are felt to be the quality of the institution's product, maintenance of high ethical standards, and frankness with prospective donors. The processes of finding the donor prospect, cultivation, closing, and acknowledgement and followup are discussed. The role of the business office, bequests, and program evaluation are briefly addressed. (MSE)

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An Introduction to Annuity, Life Income, & Bequest Programs

by William B. Dunseth

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PREFACE

This publication is an outgrowth of a paper prepared by William Dunseth for the 1977 CASE Summer Institute in Educational Fund Raising at Dartmouth College. Because it was so well received at Dartmouth, I asked Bill to revise and expand his manuscript for this CASE handbook.

We feel this monograph fills an important gap in the existing literature on annuity, life income, and bequest programs. Much of what has been published recently is either too sketchy to be helpful, or deals with the complex tax and legal aspects of these programs. What Bill Dunseth does here is discuss the types of gifts and the concurrent tax advantages with which every development officer ought to be familiar. This primer is an excellent starting point for individuals who desire to learn more about this program, and is especially valuable to presidents and board members who may be considering an annuity, life income, or bequest program.

Bill Dunseth is well qualified to write this handbook. With more than 25 years experience in higher education and development, he is regarded as one of the most knowledgeable individuals in the field. He holds a master's degree in business and has served as Dean of Men and Vice President of Park College, Director of Development at Hampden-Sydney College, General Secretary for the California State Colleges, and Director of the University of Oregon Development Fund. He is Vice President for Development at Pomona College, which has been a leader in the annuity, life income, and bequest field for nearly 30 years. Aside from his many professional activities, Bill is a qualified track and field official and a member of the Southern Pacific Chapter of the AAU.

Kerry P. McClanahan
Vice President, CASE

February 1978

INDEX

Page

INTRODUCTION 1
- The Growth of Annuity and Life Income Plans
- Basic Premises of Life Income Gifts

WHY INCLUDE ANNUITY AND LIFE INCOME PLANS IN A DEVELOPMENT PROGRAM? 3

THE PLANS 5
- The Gift Annuity
- Deferred Gift Annuity
- Pooled Fund Life Income Plan
- Charitable Remainder Trusts
  - Unitrust
  - Net Income Unitrust
  - Annuity Trust
  - Term Certain Annuity Trust

THE TAX ADVANTAGES 8
- Charitable Deduction
- Capital Gains Tax
- Gift Tax Liability
- Estate Tax

TYPES OF GIFTS 11
- Cash
- Stocks or Bonds
- Tax-exempt Bonds
- Tangible Personal Property
- Real Estate

STARTING A PROGRAM 13
- Considerations for Each Type of Plan
- The Importance of Staff
- Institutional Commitment
- Written Policies
- Authority and Responsibility

MARKETING THE ANNUITY AND LIFE INCOME PROGRAM 16
- Preliminary Considerations
  - Quality of the Product
  - High Ethical Standards
  - Frank and Open Disclosure
  - Degree of Personal Attention
- Finding the Prospect
- Cultivation
- Closing
- Acknowledgment and Follow-Up

ROLE OF THE BUSINESS OFFICE 22

BEQUESTS 23

PROGRAM EVALUATION 24

THE KEYS TO A GOOD ANNUITY AND LIFE INCOME PROGRAM 25

INTRODUCTION

John Harvard started it all — at least as far as education is concerned. And the American tradition now includes the concept of individuals assuming responsibility for helping assure the welfare of others, providing education for the common good, and maintaining religion apart from the state. In short, Americans believe in individual responsibility first and government provision of services second.

One of the world's finest institutions of higher learning, Harvard University, began as the result of a bequest from John Harvard. Since then, the support of philanthropy by the private citizen has made America unique in the eyes of the world. No other nation provides the variety of services for its citizens through private initiative and contributions which this country does.

In the fields of religion, medicine, and social services, the results of the charitable contributions of millions of Americans are evident everywhere. The same is true in education. The first colleges for black students, the first colleges for women, many of the major universities of this country, and most of the smaller independent institutions were created and have been sustained by private philanthropy.

The income tax that came into being early in the 20th century doomed the kind of philanthropy that had been possible before, but national policies continued to encourage, chiefly through tax incentives, the charitable instincts of the private citizen.

It may or may not be coincidence that the first signs of formalized educational fund raising coincided with the advent of the federal income tax. It was then that some eastern institutions began organized efforts to solicit money through alumni funds. Following World War II, the federal tax came to have a much greater impact on the life and economic well-being of all American citizens. Dartmouth created its bequest program, which has pointed the way for all of us in the development of gifts by will, in 1951. It was at this time, as college development was emerging as a respectable profession, that another significant trend in the financing of higher education developed: "Deferred gifts" were being recognized as an important element of financial support. By now the life income program and bequest solicitation as equal partners in the development program have been accepted in theory by most. As yet, however, they are being fully utilized by too few.

We must at the outset acknowledge that it is difficult to allocate hard-to-come-by resources to attract gifts which may not be available to the institution for some years. But we cannot overstate the importance of *considering* this option. The question may well be: Can an institution afford to be without a program which offers the future potential of materially increased endowment support and the assurance in planning the future which comes with it? If the answer to that question is yes, it certainly must result from careful consideration — not default.

There is evidence that "deferred giving" is not only here to stay but is increasing in importance. Long before such programs became as formalized as they are today, institutions had been issuing gift annuities. Churches had taken the lead in encouraging this form of giving, but individual colleges had also offered such contracts across the country from time to time. It is probably fair to say, however, that each stemmed more from donor initiative than aggressiveness on the part of the college.

In 1946, Pomona College offered through the public press the opportunity for individuals to make gifts which were commingled with pooled funds of the college endowment. In return, the donor each year received a prorated share of the income of that pooled fund. With the increasing significance of the income tax, the financial benefits to the donors of such gifts became an effective tool for marketing such a plan. In 1958, the gift of appreciated property to be sold and turned into tax exempt income was approved by the Internal Revenue Service. That plan was so successful that the IRS revoked the ruling in 1960. This action brought "deferred giving" programs to national prominence. The *New York Times* referred to the several forms of gifts offered by Pomona College as "The Pomona Plan," and it became a hallmark for success in attracting gifts from individuals who could not afford to give up income during their lifetimes.

Nine years later, the Tax Reform Act of 1969 added the unitrust and the annuity trusts to the arsenal of plans whereby individuals could make such gifts. In just a little over 20 years, "deferred giving" moved from a somewhat nebulous concept used by a handful of philanthropic institutions to a formalized program now officially recognized and accepted as part of the development organization of many charities.

The evidence that annuity and life income gifts are becoming more widely recognized is encouraging, but philanthropy is still far from taking full advantage of their potential. Reports from the Council for Financial Aid to Education indicate the increasing importance of these agreements over the years. For example, the total of such gifts reported in 1954-55 was $4,668,000 or 1.38 percent of total reported gifts to all colleges and universities. In 1965-66, the total was $38,516,727 or 3.18 percent of total gifts. In 1974-75, not a good year for the stock market or the nation's economy, the total reached $64,956,000, exactly 3 percent of total gifts (and that percentage applies to *all* gifts for *all* institutions, even those not reporting any annuity and life income gifts). And yet, only 29 percent of the institutions reporting to CFAE in 1975-76 reported *any* annuity and life income gifts. However, coupled with bequests, this form of giving now represents a major force in the support of higher education in America.

It is time that we do away with the words "deferred gifts." While a gift in exchange for one of the annuity and life income plans may mean that the availability of the asset to the institution is deferred, giving up control of his or her assets is not deferred as far as the donor is concerned. In every instance, the donor must make an irrevocable gift. It cannot be returned. The income starts at the first payment period and continues. The tax benefits are immediate. Nothing is "deferred" for the donor. We have created for ourselves a small problem in communication. We have created the psychological block of suggesting to each donor who is giving up a significant asset that, while we appreciate the gift very much, we will continue to watch his or her health with great interest.

WHY INCLUDE ANNUITY AND LIFE INCOME PLANS IN A DEVELOPMENT PROGRAM?

The answer is simple! It is another effective vehicle to be used by donors in particular circumstances. To the donor these plans offer (1) the opportunity to make a gift during lifetime when income from the asset cannot be given up; (2) the opportunity to make larger gifts during lifetime than can possibly be made as outright gifts; (3) the opportunity to make gifts and at the same time assure income for life to a spouse, to a child, or to others; (4) the encouragement of good estate planning and the preparation of a will, resulting in distribution of the largest possible portion of the estate according to the wishes of the donor; (5) the opportunity to create a memorial in the name of the donor or to honor others and to do it during lifetime; and (6) the opportunity to gratify the very human need for recognition while the donor is still living and able to accept the expression of appreciation from the institution.

From the point of view of the institution, the funds we can attract through these plans are irrevocably ours. They are the assured funds of the future. They are in hand. These funds may well be the major source of endowment growth in the future. There is evidence from capital campaigns of the last few years that a most significant proportion — sometimes as much as 70 to 80 percent — of new endowment funds has come through annuity and life income programs and bequests. These funds in hand enable the trustees of a college to plan the future with confidence because they know they have the assets which will produce income at a somewhat predictable rate in the future.

It is only natural that development efforts over the years have concentrated on outright giving because it represents something usable immediately. For independent institutions that depend on such gifts for their very existence, the emphasis is crucial. The importance attached to seeking gifts by bequests has varied among institutions. Some, particularly those in the East with traditional emphasis on gifts by will, have developed programs which are producing sizable sums from their sophisticated "lay-away" plans. But colleges have for too long downplayed the value of attracting gifts from living individuals who retain the rights to income from the gift assets for a specified period or for the lifetimes of one or more individuals.

Development staffs are a good deal larger today than they were only a few years ago. With size has come intensive training in specialized areas and sometimes a degree of blindness to development efforts outside a narrow field of concentration. Competition for the same dollars can be demoralizing to staff and institutions alike. Balance is the answer: balance in the opportunities the total program offers donors, balance in the gift report submitted at year's end. It is most important that this balance be maintained in the attitudes of all members of the development team. Each should realize that his or her primary objective is to attract assets for the institution, and not necessarily in those gift situations which coincide with his or her own primary area of responsibility. Every development person must be devoted to what is best for the donor and the college. His or her department's gift total alone on June 30 is an interesting measure of results but must not become the overriding concern of the staff member.

How does one solve the problem of achieving a balanced program, a program that offers a total spectrum of opportunities to a potential donor? Put the annuity and life income possibilities in perspective through use of a priority list that reflects institutional policy. *It is for internal use only,* but it will help each member of the staff to find the appropriate place on the

priority list which will allow him or her to do his or her best and which will also allow an individual donor to do his or her best for the institution. For example, no one would question the desirability of the outright gift. It is our paramount need. However, if the donor can't make such a gift, we should be delighted to have a pledge payable over three to five years which could be spent when received. If those two forms of giving are not achievable in a significant amount, why not then turn to suggesting a gift annuity or a life income plan? Failing the appropriateness of any of those plans, what about a living trust, even though it may be placed in the hands of an outside trustee with the college as beneficiary if assets still exist at the death of the donor? Finally, the bequest. Granted, wills may be changed easily (often for insufficient or unfair reasons — especially if the change drops *us* from the will) but most wills are probated in exactly the same form as originally drawn. In any case, the existence of such a list of priorities will enable all development staff persons to keep in mind the relative importance of each gift type offered in the development program. No one form of giving will be urged upon the donor when it is clearly not in that donor's interest, or worse yet, because the college representative doesn't see beyond his or her own specialty.

In summary, the committed donor, who is usually presented with two choices for giving — outright now or bequest at death — is given a third option: the irrevocable gift now with retained income. (If a term-certain plan is used, the effect is the same as a gift outright at a future date.) The institution, meanwhile, has the funds in hand for future use.

THE PLANS

The Gift Annuity is a contract between the institution and the donor. The institution pays a guaranteed lifetime annuity in return for the gift of cash, securities, or real property. The same income may continue to a spouse, a relative, or a friend for life, but there may not be more than two income beneficiaries on each agreement.

In most states, annuities are written in conformity with the insurance code of the state and under supervision of the state Commissioner of Insurance. The rates of return are determined by the ages of the beneficiaries and are lower than comparable rates offered by commercial insurance companies. This difference in rates of return is accounted for by the fact that most charitable organizations expect to have at least 50 percent of the principal contributed as a remainder at the time the last beneficiary dies. The Committee on Gift Annuities, an organization made up of many of the charitable organizations in the United States that issue gift annuities, publishes recommended rates every three years after a study of mortality tables and an analysis of projected investment earnings. Most charities use the rates proposed by the committee. Some, however, take into account their own investment experience to determine the rate they will offer to a donor on an individual gift basis. In any case, the dollar amount of the annual annuity, fixed at the time the contract is written, does not change throughout the existence of the agreement. It is important to note that in this particular form of giving there is no trustee; all of the assets of the charitable organization, not just the assets contributed by the donor, are pledged against the payment of the annual annuity.

The Deferred Gift Annuity is tailored to meet the needs of the donor who prefers to receive income at a future date but wants to claim a substantial charitable contribution now. The deduction is based on the age the beneficiary will have attained when payments are first received, and the annuity rate will be based on that same age. Higher rates of return and larger charitable contributions are available under deferred annuity plans because the gift is invested by the college and the return on the investment accrues to the donor's benefit during the period before the first payment is made. This plan is of particular interest to persons in high income brackets who are looking forward to retirement sometime within the next 20 years when income will be lower and a lower tax bracket will apply.

The Pooled Fund Life Income Plan involves commingling gifts of many donors. Such pooling enables the college to take advantage of size and diversity in following an investment policy designed to offer both generous income and relative safety. When a gift is received, it is assigned units or shares in the pool based on the fair market value of the gift. Each year, all of the income received from the pooled fund investments must be distributed, prorated periodically to each donor on the basis of the number of his or her units. The rate of return, based on the total income of the pool, is the same for each unit in the fund.

While income amounts are not guaranteed and the investments in the pool may be changed so as to be responsive to different economic conditions, the variations in payments will be far less in both up and down movement than would be true when a relatively small gift is handled as a single investment fund. Inasmuch as the pooled fund is a form of trust, the assets of the college may not be used to fulfill any of its obligations. Indeed, should the institution cease to exist, the trust would continue under supervision and management appointed by the courts. Obviously this plan appeals to the donor whose gift potential is re-

stricted to sums smaller than an amount which can be prudently and effectively invested separately.

Charitable Remainder Trusts

The *Unitrust* is established as a separate trust with no commingling with other funds. As a result, a flexible management policy can be followed to meet changing conditions and the investment objectives of the donor can be taken into account. Additional gifts may be made to the unitrust from time to time.

Because the value of the assets can be expected to change from year to year, the unitrust payment will vary in amount each year. The amount to be paid is determined by multiplying a percentage (minimum of 5 percent), mutually agreed upon and stated in the trust agreement, by the value of the assets in the trust, revalued each January 1. The amount to be paid each year is known on the first day of that year. Should the annual income exceed the amount to be paid to the beneficiaries, the excess must be added to the trust principal and reinvested for the benefit of the trust.

In making payment from the basic unitrust, the "three-tier concept" calls for the distribution first of all ordinary income and short-term capital gains (both fully taxed) received by the trust. Next, long-term capital gains (50 percent is taxable) are distributed. Finally, tax-exempt income, and if necessary, return of principal (not taxable) are distributed to make up the total annual amount.

It is conceivable that the assets from such a trust could be materially depleted during the lifetime of one or more beneficiaries. In such case, the income each year would be reduced. *Such risk must be explained carefully to potential donors and all possible steps should be taken to be certain that the risk is understood before such gifts are accepted.* Once accepted, regular reporting to the donor as to the status of the assets in the trust is absolutely essential.

A Net Income Unitrust is essentially the same as the basic unitrust except that only earned income may be distributed to the donor. A fixed percentage must be stated in the trust agreement which, when multiplied by the value of the assets in the trust, revalued annually, determines the *maximum* payment to be made to the beneficiary. Any income received by the trust other than dividends or interest cannot be distributed but must be added to the principal of the trust. If the available income is not equal to the maximum payment allowable, the deficiency may be carried forward and made up in subsequent years when income is greater than the allowable payment. If there are no such deficiencies, excess income is added to the principal of the trust.

Gifts of real estate and tax-exempt bonds may be most efficiently handled under this form of gift.

The Annuity Trust offers the assurance of a fixed dollar income. It combines some of the features of both the gift annuity and the basic unitrust. The donor and the charity are free to agree upon the fixed amount to be paid when the agreement is prepared, but once set, it can never be changed. The amount must be at least 5 percent of the fair market value of the assets placed in the trust when it is created. No additional gifts may be made to the trust after its establishment.

The fixed annual payment for the life of the trust is distributed in the same manner as distribution from the basic unitrust — *i.e.,* under the "three-tier concept." In this case *depletion of the trust prior to the death of the last beneficiary is a possibility and donors should*

be clearly advised of the risk before this gift is consumated. At the same time, the possibility of increased value of assets under good management is very real so that the sum available to the charity may grow materially between the time of the gift and the maturity of the contract.

The Term Certain Annuity Trust provides for payments to the beneficiaries for a specified number of years (not more than 20) rather than for life. The principal advantage lies in allowing the donor to maximize income tax deductions immediately while providing income for a specified period of time. The plan is particularly advantageous for donors who wish to help young people get started but do not want to provide income support for life. It can also be established to accumulate funds for a small child's college expenses in later years or to cushion the first years of his or her working career after college.

THE TAX ADVANTAGES

All annuity and life income plans offer both federal and state tax benefits.* National policy since the establishment of the federal income tax has encouraged private philanthropy by offering tax incentives. Too often today these are misconstrued as "loopholes," but they are not. "Loopholes" are oversights in the law which allow certain individuals unfair advantages. Tax incentives have been written into the law with deliberate intent by Congress and reaffirmed by every Congress as national policy.

There are those who would eliminate the possibility of individual choice in giving personal resources, who claim that annuity and life income plans enable donors to profit financially through these gifts. They are wrong. In every instance the donor must make an irrevocable gift and thus in every instance the donor has reduced his or her net worth. Even the philanthropist who gives away highly appreciated securities earning 2 percent, freeing himself or herself of payment of a capital gains tax and earning income at the rate of 7 percent on the full market value of the gift, has irrevocably given up control of the asset. Is the donor "better off?"

We have unwittingly allowed accepting the advantage of tax incentives to be equated with cheating and dishonesty. This is unfortunate. While it is true that donors may prefer to give some of their assets to their personally chosen philanthropy rather than to government, they cannot, through such gifts, avoid the payment of all taxes. Also, in order to receive their charitable deduction they must — I repeat this for emphasis — give away their assets irrevocably. To those who claim that there must be tangible evidence of charitable intent as the primary motivation for donations, the evidence of the gift itself should be sufficient answer. It is highly unlikely that anyone will make gifts to any institution which does not merit the donor's confidence — especially assets so essential to the donor's welfare that the income must be retained. We know from experience that many donors are not certain about their underlying motivations, but the safeguards of charitable deduction limitations and the irrevocability of gifts seem to preclude "tax evasion" as a reason: "Tax avoidance" it may be, but it is, to this day at least, the right of every citizen to choose to avoid a portion of his or her taxes in order to benefit a charity in which he or she believes.

The primary tax benefits are as follows:

The Charitable Deduction. The most efficient gift from the point of view of the deduction earned is the outright gift. This gift may be deducted dollar for dollar. However, when the donor cannot afford to give away assets without retention of income, the gift consists of two parts: (1) a value on the life estate retained by the donor and (2) a value on the remainder interest which will accrue to the charity. These values are determined by official tables authorized by the Internal Revenue Service. In general, the amount of the deduction depends upon the relative amount to be returned to the donor. The higher the rate of income, the lower the deduction; the longer the projected life span for the payment of benefits, the lower the deduction; and vice versa. If gifts are in a form of appreciated property, the deduction which may be taken in a given year is limited to 30 percent of the adjusted gross income of the donor. If the gift is in the form of cash or unappreciated property, the charitable deduction is increased to 50 percent of adjusted gross income in a given year. Should the charitable remainder representing the deduction earned by an individual gift exceed the maximum

*References to taxes in this publication apply only to federal regulations. The laws of individual states vary and should be carefully researched as they apply to each donor and to each gift.

allowable deduction during the year of the gift for the individual donor, the excess may be carried forward and deducted in subsequent years to a maximum of five years.

The Capital Gains Tax. If a donor contributes appreciated assets in exchange for a pooled fund agreement or a charitable remainder trust, he or she is freed from payment of tax on the capital gains and the value of the gift is the full fair market value on the date of transfer. Quite naturally, this is a major incentive for giving by individuals who are "locked in" by virtue of holding assets over a long period of time during which the value has increased considerably.

A note of warning: If the trustee intends to sell the donated assets and purchase tax-free bonds, appreciated property should not be contributed as the probability of the donor's being liable for a capital gains tax is extremely high.* Nothing in the 1969 Tax Reform Act has any direct reference to such a ruling, and indeed, the three-tier concept of the charitable remainder trust provides for payment of this kind of income. However, the 1960 ruling has not been tested in the courts, and it is advisable to avoid such agreements.

In the case of the gift annuity, a portion of the capital gain involved in such a transferred asset will be reportable for income tax purposes. The taxable gain is less than would be the case if the donor sold the assets. Under federal income tax law, the donor may choose to report the capital gains in much smaller, equal yearly installments over his or her life expectancy. (Some states do not make such a provision, and this is a perfect illustration of the importance of researching state law for variation from the federal statutes.) Inasmuch as the words "capital gain" elicit such a negative response from so many people, it is important to be in a position to present to a prospect specific figures which illustrate the actual effect of a gift for his or her circumstances. The gift annuity is frequently the best plan, even with the payment of some tax on the capital gain inasmuch as the deduction and the tax-free portion of the income often more than offset the gain reportable each year over the donor's life expectancy.

The Gift Tax Liability. A gift to a charitable organization does not subject the donor to payment of gift taxes. Such gifts are not reportable. Should the gift be in the form of an annuity or life income agreement, however, with someone other than the donor named as a beneficiary, the value of that individual's income interest is considered a gift from the donor, and that gift may be subject to the gift tax. If income is payable to the second party immediately, the gift is a present interest. If income is not payable to the second party until the death of the donor, then the gift is a future interest.

It is important to know just how the gift is classified in order to determine whether or not the annual exclusion may be applied.

Gift taxes may be deferred by use of a revocation clause in the trust agreement. Should such a clause be used, the donor reserves the right to revoke the interest of other beneficiaries. This revocation may take place only in the will of the donor. For this device to be effective, the donor must retain income for life. The determination of gift tax liability and the decision as to whether or not a revocation clause should be used are subjects for discussion with the donor and the donor's legal and financial advisors.

The Estate Tax. An annuity or life income gift, no matter which plan is used, is free of estate tax if the donor is the sole beneficiary or if the donor is the survivor in agreements with more than one beneficiary.

*Revenue ruling 60-370 is still on the books. It holds that the donor shall be liable for tax on the capital gain if there is an express or implied obligation on the part of the trustee to sell the appreciated assets and buy tax-free bonds.

If there is a surviving beneficiary in the case of a two-life annuity, the value of the benefits received by the survivor over his or her remaining life expectancy will be included for tax purposes in the gross estate of the donor. In the case of the pooled fund or charitable remainder trusts, only the value of the survivor's right to life payments will be taxed in the estate of the donor if there are payment beneficiaries who survive. The value of the survivor's rights are computed at the time of the donor's death and therefore cannot be determined in advance.

In any case, the taxable portion of the donor's estate will be less than if the gift had not been made and the assets were included at full market value in the donor's estate.

TYPES OF GIFTS

Just what may be accepted by an institution in exchange for a gift annuity or to fund a pooled fund or a charitable remainder trust is partly determined by law, partly by regulations, and principally by the policies established when the program is started. Once again, the importance of these written policies cannot be overstated. The following guidelines must be considered:

Cash. Cash can be accepted to fund any plan. It represents the simplest form of gift to receive. A check is its own receipt in case the standard acknowledgment procedures go awry.

The date of the gift is the date the cash or check is handed to a representative of your institution or the postmark on the envelope if the gift is mailed.

The value of the gift cannot be questioned either by the IRS or your board of trustees.

Stocks or Bonds (except tax-exempt bonds). Stocks or bonds may fund any plan with the exception of a net-income unitrust set up to pass tax-free income to the donor. (See note of warning on page 9.)

The date of the gift is:

1. the date the certificates are hand-delivered to a representative of the institution;
2. or the date delivered to a broker for the institution's account;
3. or the date recorded on new certificates if old ones are sent to a transfer agent by the donor or the broker.

Valuation is the mean between the high and the low on listed stocks; the mean between the bid and asked price for over-the-counter stocks. For unlisted, close-held stocks, the value is the price of the last sale of the stock or a price attested to by acceptable authority.

Special classes of stock, such as Rule 144 securities, may be subject to special limitations on re-sale which should be investigated with the donor before acceptance.

Tax-exempt Bonds. These bonds are best used to fund a net-income unitrust. All income, but only the income, passes tax-free to the donor within the limitations stated in the trust.

The date of the gift is the date on which the bonds are delivered to a representative of the institution or to a broker for the institution's account.

Valuation is the price quoted by acceptable authorities on the date of the gift.

Tangible Personal Property. Although there is no specific prohibition against funding a charitable remainder trust at least partially with tangible personal property, serious questions have been raised which suggest exercising extreme caution. Certainly the donor should be advised of your concern and requested to seek the approval of his or her own attorney. In fact, a ruling from the IRS might well be sought before the gift is made. It is far simpler for tangible personal property to be contributed outright.

Real Estate. The most practical plans for accepting gifts of real estate are the gift annuity and the net income unitrust. When an annuity contract is used, the management and disposition of the gift are completely divorced from the obligation of the charity to make payment to the donor.

When a net-income unitrust is created, only the net income passes if income-producing property is contributed. Should the gift be in the form of non-productive land, there will not be any income until the land is sold. Arrangements for payment of taxes or maintenance costs until the sale is made must be provided for *before* the gift is made.

Your institution should make a major policy decision early on as to your plans regarding sale or retention of gifts of real estate. One option is to sell all such gifts as quickly as possible after the gift is received. Pre-gift research will demonstrate a probable sales price. If that price is not close to the value the donor wishes to claim as a basis for a charitable deduction, the decision may be simply to forego acceptance of the gift. Whether or not the investment committee is willing to consider gifts of real estate which will have their greatest value if retained for a period of time is something the staff must know when discussing such gifts with potential donors.

The date of the gift is the date the deed in favor of the receiving institution is delivered to it.

The best evidence of value is the price obtained as the result of a sale shortly after the gift is made. If the property is not sold, the donor should provide at least one, if not two, MAI appraisals. The cost of these appraisals is deductible. Some institutions follow a policy whereby the donor pays for the appraisal if the gift is not made, while the institution underwrites the cost if the gift is made.

Your institution should have access to experts in the field so that you can make your own judgments as to value, probability of sale, and special problems inherent in managing the property under consideration.

Property encumbered by mortgages, trust deeds, or delinquent tax liens can present serious and very complicated problems. You must discuss fully and carefully these complex transactions with the donors and their tax advisors before proceeding. The acceptance of real property, if the property is subject to a mortgage or deed of trust placed on the property less than 10 years before the gift, is deemed to be a self-dealing transaction under the Revenue Code. Furthermore, a penalty tax will be assessed on both the donor and the trustee for having entered into the transaction.

STARTING A PROGRAM

If you provide any information to potential donors about their wills, you already have some kind of a program. If you have ever written an annuity and presumably, therefore, have qualified under the laws of your state to issue such an annuity, you already have a program. You need nothing to start a bequest program other than the determination to do it and the identification of someone to prepare letters or brochures and to mail them. You can start an annuity program by filing application with the commissioner of insurance or the appropriate official in your state, and complying with his or her requirements. The primary concern of the state is the stability of your institution and the maintenance of proper reserves. You may determine how best to proceed by inquiring of the appropriate state official who will provide you with the necessary forms. To understand gift annuities and to develop the skill to do the computations, write the Committee on Gift Annuities in New York City. For a small fee, you can acquire all the information necessary to enable you to perform the computations that are appropriate to inform your donors of the tax status of such a gift. A study of their material and some practice with the tables and the forms which they supply will enable you to offer the gift annuity with confidence and assurance.

Consideration For Each Type Of Plan. Professional legal counsel is absolutely essential if you are to operate a pooled fund. Federal codes establish the ground rules which must be obeyed to the letter. Your development staff and business office must understand the operation of the pooled fund before any offering is made to the public, and a "full and fair disclosure statement" about the operation of the pool must be prepared and handed to all potential donors.

To fund the pool takes money. A few of your institution's best friends may see this as a way to help both your college and themselves by being the "charter" donors. Here is an excellent opportunity for individuals already committed to the program to demonstrate their commitment and to place in operation the pool that can then be used to attract additional gifts. Some institutions have used their own assets to fund the pool and have then withdrawn them after receiving sufficient gifts to maintain the pooled fund's operation.

The decision to offer charitable remainder trusts must be carefully considered. Professional legal counsel, investment counsel, and the members of your business office staff must be completely and fully aware of the requirements of the federal statutes and the applicable trust laws. Great care must go into the preparation of the trust documents. This cannot be done by amateurs and is the best illustration of why your institution should not venture further into an annuity and life income program than the staff and its professional advisors can capably and safely take you.

Again, if possible, try to establish your first trust with an understanding friend. If your reports are slow or unintelligible, if asset values drop temporarily, or if any of the hundred and one possible problems develop, a tolerant donor can be a great help in smoothing out your operation.

WARNING: Trustees making administrative or investment decisions concerning trusts established by their personal gifts may present a conflict of interest problem.

The Importance Of Staff. Competent staff is essential. Too many institutions spend too much money and time training expert manpower for special gift responsibilities, for foundation solicitation, for corporate relations, for alumni giving. These institutions send the per-

sonnel to conferences; hire professional counsel; spend fortunes on brochures, mailings, lunches, banquets, cocktail parties, and meetings to plan and carry out a good fund raising program. Then, almost as an afterthought, they assign responsibility for annuity and life income gifts on a part-time basis to an already overburdened staff member — or perhaps to the newest addition to the staff, a retired trust officer, an inexperienced but "promising" alumnus, or another bright young "comer." This approach *could* result in a bonanza, but it is more likely to produce a bust — and in so doing, doom a program of tremendous potential to dismal failure.

Staff members must have a detailed technical understanding of what each plan in an annuity and life income program can — and cannot — accomplish for a donor. They must be able to do the most rudimentary of calculations and know why they are doing them. They must understand the basic rules as prescribed by law and by IRS rulings. That kind of knowledge is just as essential in annuity and life income programs as in other fund-raising efforts. It is almost impossible for someone who does this as an infrequent part of his or her job to be so knowledgeable.

Fitting the best plan to the donor takes expertise and time. An unskilled person cannot do it. It also takes availability at the right time. A part-time person is too often not available when the donor is ready to discuss his or her circumstances and objectives, and too often the part-time person is not ready to make a presentation when the donor is ready to listen. It is difficult enough for a skilled professional with a number of prospects to remember each one's individual problems and to be available at the critical moment. It is virtually impossible for a part-time or unskilled person.

This is not to say that members of the development staff concentrating in other aspects of fund raising need to be professionals in the annuity and life income field. They need only to know that there is such a program and to have a general understanding of what it can accomplish. They need to know that the annuity and life income gifts fit into the list of priorities we have described earlier. But in the final analysis, when a donor seems to be best served by an annuity or life income gift, there must be available a competent professional staff person to assure that the proper agreement is prepared, computations are accurate, the transfer and receipt of the gift is completed in a professional manner, and the follow-up reports and acknowledgments are issued on time.

Institutional Commitment. The willingness to fund adequate staff is one major indication of the institution's commitment to this program. Commitment must start with the president and members of the governing board. They must want this program, not fear it. They must understand that in time it will produce assets which will enable them to plan for the future with confidence. They must not be afraid that it will rob current funds. They must show the determination to make the investment in the future now. They must be totally supportive.

The preface to a policy statement written by one institution which is a leader in the annuity and life income program contains the following:

> "It is the policy of the Board of Trustees to offer through the estate planning program an opportunity for donors to make gifts, reserving income for life to themselves and other beneficiaries, to make such gifts by will and make outright gifts by bequest; to aggressively seek out such gifts; and to provide adequate staff and resources for a full and effective program.

This is not lip service. It is a written statement officially adopted and effectively implemented by the trustees. Without such commitment, you cannot expect much from an annuity and life income program.

Written Policies. Finally, in preparing for an annuity and life income program, policy must be defined and written for all to see. A clearly written policy will help avoid your presenting a plan to a donor only to discover at a later date that your board of trustees will not approve it. The same attention to written policies would be true for the other relationships between administration, staff, business office, and investment committee. Minimum ages, rate ranges, minimum amounts, management practices, acknowledgment procedures, and responsibility should be spelled out in detail for each plan. No document of this kind is complete or perfect. Indeed, it must be reviewed and rewritten periodically, and exceptions can be made in individual cases. Nevertheless, the policies serve as reminders and provide guidance to key questions such as whether or not a gift can be accepted, and if so, under what conditions. From the beginning, any annuity and life income program should be based on such a written policy statement.

Authority and Responsibility. As with every other aspect of institutional operation, the board of trustees has the ultimate responsibility for the nature and extent of the development program. Every decision as to whether or not a gift shall be accepted, and all conditions of the agreement under which it is accepted, is the responsibility of the board. Delegation of authority can be made to board committees, and by approval of policies, to the staff member operating within such policies.

However, no matter how well written and complete the policies under which you operate, many situations will arise which, while outside the limits of stated policy, could result in consummation of an agreement and a gift due to special circumstances. These cases can often be presented to the board committee responsible for approving or denying special arrangements at regularly scheduled meetings. Sometimes, however, decisions cannot wait for regular meetings. It is important that a small sub-committee be authorized to act in such cases. Members should be persons usually available, at least by phone, and knowledgeable enough to take this responsibility.

Such a special committee offers the possibility for involvement of specialists who are not trustees but who can perform a very real service. Real estate brokers and appraisers, stock and bond brokers, and actuaries can offer expert advice and counsel. Authority can be retained in the hands of the trustee members, most of whom appreciate the expert input from such members.

MARKETING THE ANNUITY AND LIFE INCOME PROGRAM

Preliminary Considerations. The primary consideration in marketing an annuity and life income program is the *quality of that product.* Is your institution doing a good job in its field? Do you know *what* you are trying to do? Can you express what you are trying to do and demonstrate how well you are doing it? Most educational institutions are doing a good job, but often cannot sum up just what they are doing. Although the ability to state the case is important to all phases of development, it is exceedingly important for annuity and life income programs. These programs are primarily concerned with the future, and it is to that future which these donors make their gift and their commitment.

Prospective donors, particularly those who have no direct connection with an institution, will not support it merely because of tax incentives. They must believe that their funds are going to be used wisely for a good and noble purpose. After all, tax incentives are available from a variety of charitable organizations. Why does an individual choose the field of education and why does he or she choose our institution in particular when entering into one of these agreements? At least part of the answer lies in how well the donor knows us, what we are trying to do, and how well we do it. There are cases of donors who have learned all about an annuity and life income program from one institution and then have gone to their own alma maters to make the gift. They wanted their money to go where their hearts were.

To mention the maintenance of *high ethical standards* may seem impertinent. I do not mean to imply that any of us or any of our institutions are unethical. Yet there are many shades of gray between the black and the white. It is at least possible that, in the interest of acquiring a gift, some overeager solicitors may temporarily lose perspective. Everyone in the field of annuity and life income gifts has been offered "deals." Seldom are they blatantly described as such. Inquiries do come from those whose motivations are somewhat shaded and those who want to explore to see just how far an institution will go. Obviously, staff must scrupulously avoid any appearance of selling an institution's tax exempt status to help someone "beat the game." In negotiating rates of return, we must be prepared to demonstrate realistic income objectives that will not imperil the principal of an agreement while the beneficiaries are still living. Real estate gifts are the ones that most easily may involve questionable practices. Exercise great caution in setting values on real property and investigating encumbered real estate. Every good development person must be confident, honest, forthright, and willing to say "No." Perhaps "ethical" is a synonym for "professional."

It is in the best interest of each institution to have a firm policy that will preclude bidding wars with other educational or charitable organizations offering the same program.

Complete frankness with prospective donors about all the consequences of their agreements is essential. They must be told *everything* there is to know about an agreement *before* it is made. They should have a list of the specific tax deductions available to them; they should be clear as to the dollar income they will receive from a fixed agreement and how much is taxable or tax free. They must see not only the possibility of increased income during the life of a unitrust, but also the possibility of *decreased* income. They must be aware of the possible estate and inheritance tax problems, gift tax consequences, and capital gains liability.

If the prospect is considering a gift to the pooled fund, he or she should receive a "full and fair disclosure statement" telling in great detail just how the pool is managed. It should report the unit values and the rate of return for each year of the pool's existence.

You should make available a simple, understandable, but complete financial statement for your institution.

Written presentations which contain clear and concise language will be helpful to prospects, and you should send extra copies, which may be forwarded to tax advisors and financial consultants. Urge prospects to consult others before they make gifts.

One of the most important policy decisions to be made in setting up an annuity and life income program is the role *personal attention,* both for prospects and donors, will play in your program. After you identify a prospect, you may want to use the mail for collecting information, making comparative plan presentations, communicating all appropriate material to the prospect, and consummating the gift. If this procedure is adopted for the vast majority of prospects, you need a relatively small field staff. However, if your policy calls for a more personal relationship between the institutional representative and the prospect, the size of staff, and indeed the qualifications of the field staff, should be very different. There can be no argument that personal attention to prospects and donors is productive. As the number of friends grows and the geographic distribution becomes more widespread, however, the temptation to fall back on mail will be great — and even practical in many instances. You must constantly review your program in order to be certain that the resources available to your particular set-up are compatible with the policy under which it operates and with its size, both geographical and in number of prospects and donors to be served. The longer you are in the field of annuity and life income, the more important it is to maintain close relationships with your donors. Their interest in their gifts continues — even if limited to receiving checks on time — and is a wonderful basis for continuing expressions of appreciation and further cultivation. (The importance of personal follow-up is discussed further under *Cultivation.*)

Finding The Prospect. Most of the basic principles of all development programs apply to annuity and life income programs. For instance, to find prospects we must first determine our constituencies. Every college and university has alumni, parents, faculty, staff, emeritus faculty, trustees, a local constituency, and the general public. Shall we try to reach all of these or only certain categories? Perhaps, in the beginning, the local geographic area is the place to start. It will take some analyzing, particularly to locate alumni in the age brackets most likely to benefit from the program. But, all things being equal, there is no point in spending time traveling several hundred miles to call on one prospect if there are several within a ten-mile radius.

For the "family" — alumni, parents, faculty, staff, trustees — we can use regular publications such as the alumni magazine, faculty and staff newsletters, parents newsletters, class letters, and special mailings to introduce the subject and to invite inquiry.

Attorneys, accountants, stock brokers, and other professionals can be kept informed through special booklets, special mailings, and personal visits. Alumni in those professions provide a beginning mailing list. It is, however, dangerous to overrate the opportunity and even the desire of these professionals to recommend our program to their clients. Experience has shown that these opportunities are fewer than naive development staff members would like to think. In addition, unfortunately, too many of these people have little understanding of what an annuity and life income program can do. We can cultivate them in an effort to overcome their lack of knowledge, but nothing can change the number of opportunities they may have. Nevertheless, there are professionals who are interested in our

institution and who will be willing to help if we provide some opportunity for them to gain familiarity with our program. Identifying them may take time, but it can be worthwhile.

Once your program is started, there will be referrals by donors, friends, or professionals.

Numbers of institutions advertise. The Pomona College program was built on the concept that alumni, parents, and friends of the institution should make the outright gifts for the current operations of the college while the "strangers," attracted through the public media, make the annuity and life income gifts which provide future endowment for the institution. This program has proved that there are many people not directly affiliated with one educational institution, or any charity for that matter, who want to make gifts during their lifetimes, cannot afford to make large outright gifts, and are most receptive to the institution which offers both the prestige of association with a worthwhile cause and a method tailored to their objectives.

An estate planning seminar for both family and "strangers" can produce new prospects. This is particularly effective when held in the local community so that members of the faculty and staff may attend. (It often improves relations with these groups.) A well-prepared seminar, aimed at the broad concept of estate planning but including references to the role charitable gifts can play in a good estate plan, will produce new prospects and/or move current prospects to action.

Finally, some institutions feature stories about individual gifts at the time they are made in the college publications and/or the public press. These often recount the human aspects of motivation that sparked the giving and reflect the satisfaction achieved by donors. Occasionally these will produce an inquiry from readers. Obviously, publication of information about such gifts must not be made without approval of the donors.

Cultivation. The first lesson we must learn in cultivating annuity and life income gifts is the importance of patience. It takes time. People, no matter how friendly and interested in helping, don't give away large sums in a hurry. This is particularly true for individuals who obviously need to retain the income. The irrevocable nature of the gift places the donor in the position of having to be absolutely certain that the action will not jeopardize his or her future well-being. Furthermore, the subject is complex. It may take a long time to assess the various plans and to rate them as to which will most successfully achieve the donor's objectives.

Whatever the source of the inquiry, the first communication from potential givers most commonly will be a written or telephoned request for information. To respond, you should have available a brochure outlining in broad terms the advantages of each plan. A word of caution. Don't try to explain all plans in too much detail in a brochure. You do want to explain the advantages and the differences between plans in general. But when you are attempting just to attract interest, don't frighten prospects away by over-explaining the complexities. You should accompany the brochure with a letter indicating your interest in providing service and offering to be available for discussion at any time. It is most desirable to get from the prospect enough information to serve as a basis for a written presentation describing specific benefits and limitations of a gift under each plan. However, even very good friends of the institution are sometimes reluctant to communicate in writing information about their adjusted gross income, the amount of money they may be thinking of giving, and other personal information necessary to the preparation of good presentations. Indeed, some are even reluctant to write down their birthdates. Furthermore, many who inquire are not at all certain about just what they want to accomplish. Even after they learn what the programs can do, they are slow to make major decisions about giving up assets irrevocably. I cannot overstress the limitations of mail in the cultivation of such prospects.

As soon as you identify a prospect, he or she should become the personal responsibility of a specific staff member. Unless you make such an assignment, you may well forget a prospect.

It is here that personal attention as a selling tool enters the picture and vastly increases the probability of a gift. We achieve best results when we visit personally with prospective donors. We get to know them as people and they get to know us. (Many gifts are still made to the people representing institutions, rather than to the institution itself.) We have the opportunity to help them become more familiar with our school, college, or university. We can answer their questions about education, students, and faculty, and we can talk with them about the financial stability of the institution to which they are considering entrusting their assets. We can learn their objectives. Too often they are not at all clear about what they want to do, and they are certainly hazy as to what our plans can do for them. In these discussions, we help them work out their plans and clarify their objectives. The first meeting provides a good opportunity to get as much information as possible about their circumstances and their objectives.

Now we can send a letter. This practice does not conflict with our commitment to personal attention and service. When detailing facts and figures for study by the prospect, we can often serve better by sending a written presentation so that he or she has time to reflect on the material without feeling the pressure of our presence. If we also send an extra copy, the prospect may discuss the information with others as appropriate. A personal visit soon after the donor receives the letter is good practice. We should follow up on that first discussion and present information, including tax benefits, about the plans most suitable to the prospect's circumstances and objectives. We should present the advantages of different plans as simply, honestly, and completely as possible. After these steps, it is a matter of further visits, phone calls, or letters as our knowledge and experience dictate until the donor makes a decision one way or another.

We must never push a prospect too hard, too fast. He or she must have time to think and frequently to talk with others — a spouse, children, other relatives, and especially a professional financial advisor. We should provide sample agreements (hopefully agreements which have been approved by the Internal Revenue Service), and we must be *patient*.

A recent study at Pomona College reveals that the median time between first inquiry and first gift is almost two years.

Closing. When the donor reaches the point where he or she is prepared to make a gift, we should be available to receive it personally if at all possible. Personal acceptance enables us to express appreciation more meaningfully than can be done by mail alone.

At the time of the acceptance of the gift, we have one last opportunity to review the basic considerations of the selected plan and to be certain that the donor understands both the advantages and the possible problems. A formal application should be available for completion. If possible, annuity contracts or trust agreements should be prepared ahead of time, signed by the representatives of the college, and available to hand to the donor for final review and signature. The donor should receive a formal receipt. If the gift is stock, we should have stock powers available for signing. If we are handed both stock certificates and stock powers, we should have with us envelopes in which we can mail either the stock or the powers to our own office so that we do not carry both of them on our person unless the distance to be traveled is exceedingly short. Together, of course, they are negotiable.

Should we not be able to accept the gift in person and should it be in the form of stock, we should discuss with the donor the method of transfer. We must be knowledgeable about the

rules on valuation of gifts of stock. Beware of those occasions when stock is held by a trustee bank in street name. When forwarded by the trustee to the transfer agent for reassignment to the college, that assignment can take place as much as two to three months later. The effective date of the gift can be quite different from one assumed by the donor and the value can change considerably. Know the rules of valuation and know how you propose to help the donor around any of the problems that might arise as the result of transfer problems.

Should the gift be real estate, a representative of the institution who is thoroughly familiar with such matters should be present when the gift is received in person. The real estate manager should be involved, of course, to handle the necessary paperwork. (See section on Gifts of Real Estate.)

The more proficient and businesslike we appear, the more confidence we build in the donor. It is certainly obvious — but too often we forget — that when we know what we are doing, when we demonstrate that we know what we are doing, we will have a much simpler transaction and a confident, satisfied friend.

Acknowledgment and Follow-Up. We should acknowledge by mail the acceptance of gifts as quickly as possible, preferably witnin 24 hours of their receipt. In most cases we can quote their exact values. Letters of appreciation from the president and/or the chairman of the board should be routine. In most cases involving gifts for designated purposes, the faculty or staff person most concerned should also write letters of thanks.

It goes without saying that a gift earns its donor the on-going appreciation of the institution. And whether or not additional gifts are expected — indeed, even if the attitude of the donor becomes less positive at some future date — the institution must regularly express appreciation to the donor and to beneficiaries. Soon after receipt of the gift, we should send a tax letter, which provides the information necessary for reporting the gift and claiming a deduction on income tax returns. Ordinarily we should do this for both the federal return and for the state in which the institution is located, but the donor should be cautioned about the need to ascertain state requirements when he or she lives in a different state.

When a trust has been established, appropriate reports should be sent regularly to the donor to indicate the sale or purchase of assets and status of the holdings on pre-determined dates.

Continuing to make the personal visits to our donors is most desirable. They develop further confidence in the staff representative, and this can often lead to revised estate plans that incorporate our institution both in their lifetimes and by bequest. If our donors believe that the staff representative knows what he or she is talking about and, where the law and IRS are concerned, is open and candid about what he or she doesn't know, the rewards can be tremendous.

You may find that a quarterly newsletter is most helpful. If you don't have the time or the capability to prepare your own, you may purchase one from any of several competent sources. It's an easy way to maintain regular contact, particularly with those so distant you cannot visit them personally.

Birthday greetings to the donor, and to a spouse when gifts are made by both, are thoughtful expressions of remembrance. Invitations to events on the campus or to activities of alumni in the city in which the donor lives are also reminders of the college's continuing interest. These invitations should be sent even if you believe that distance will prohibit attendance because there are times when travel plans coincide with especially interesting activities. "It's the thought that counts."

You can distribute a special publication listing the memorial endowment funds created by such gifts. Ordinarily it would list only those funds that have been released to the institution after the death of the last beneficiary.

You should acquire pictures of donors and place them in the files for possible use in the future in the establishment of memorials. There may be occasions when you can arrange to visit a donor and ask that he or she talk about his or her life so that you can record it on tape. Many of them have had interesting lives, and some have had extraordinary experiences well worth recording. Perhaps most important in any follow-up is the personal, fast attention to any letter or phone inquiries about existing agreements. Once in a while our business office lets errors slip by: Checks are delayed, figures are transposed. These mistakes are of real concern to the recipient. How quickly we respond and how efficiently we solve the problems will tell them much about how we view their relationship with our institution.

ROLE OF THE BUSINESS OFFICE

A business office that runs smoothly and efficiently is crucial in any successful annuity and life income program. Marketing and administering our plans begin in the development office, but we immediately become involved with the operation of the campus business office. The role of that office in trust management, in preparing all of the federal and state tax reports, in preparing and delivering the appropriate trust reports to donors, in writing and mailing checks *on time* with easy identification so that the donor knows which gift prompted the payment — these are the essential obligations of the business office that affect the attitude of donors and, to a great degree, the possibility of additional gifts. Every transaction involving that office must reflect the greatest accuracy, promptness, and courtesy. It's no small job, and it's critical to the future of our endeavors.

The critical element here, as in all development work, is a matter of attitude. If the members of the business office staff see themselves as representatives of the institution in dealing with the donors, if they understand that many of those "silly" questions are not silly to the donor, and if they believe that doing everything possible to satisfy the sometimes whimsical requests for information are important aspects of their function, then they can be of tremendous help in the acquisition of gifts. If, on the other hand, their attitude reflects their belief that the machine is always right and it is bound to make a few mistakes about which one shouldn't really get excited, then the staff person for the annuity and life income program is going to have a very difficult time with many donors.

The answer is effective internal communication between the development staff and the business office. It is the responsibility of the development staff to take the initiative in getting to know the people in the business office, in informing them of the role of the development office, in explaining carefully their importance to the future of the institution, and finally in achieving their full cooperation. As C. David Cornell, vice president of Wagner College, has pointed out, "We in the business area are conservative, reflective, and the antithesis of the entire development operation. Many of us feel that the world would really be a better place if somehow God would provide, and we could do away with the fund raisers."

The development staff and the business office must understand each other. They must appreciate their respective roles. Cornell also points out that personnel in the business office often don't know what an annuity and life income program is. (They need to understand that, as important as we believe it is, it is not a panacea for all of our problems.) They must appreciate the need for patience with us and with our donors and see the program as a long-term investment. Business office personnel must be made members of the team. They will have to understand that relationships with the donor are the primary responsibility of the development staff but that the business office plays an exceedingly important part in the relationship. They must learn to accept — even if they never believe — that donors do not relish an excuse to call and complain about the late check arrivals or incomplete information.

Development staff, at the same time, must appreciate the role and the problems of the business office. Your policy statement should clearly spell out the function of the business office and fix responsibility for both the staff of the business office and the staff of the development office. We must, however, acknowledge that all too often there is a wide gap between the written word and comprehension. Again, development staff must take the initiative in closing that gap, in creating the kind of relationships among personnel so necessary to the success of an annuity and life income program.

BEQUESTS

Anyone who has made a gift using an annuity or a life income plan has done some estate planning. He or she has made decisions involving maintenance of liquidity, disposition of assets, and tax consequences. Finally, he or she has probably prepared a will. The planning that goes into a choice of the proper annuity or life income plan can be the basis for the ultimate decisions drafted into a will. Good development staff people will encourage donors to follow through with the will whether or not their institution is involved. And in most cases the donor and his or her family are grateful for this encouragement.

Furthermore, annuity and life income plans may be established by will. Donors who are uncertain about giving away assets during their lifetimes can carry out their desires to provide guaranteed *income* for survivors when they do not wish to bequeath sums outright, and when they do want to assist a worthwhile charity.

More organized forms of encouraging and informing potential clients about bequests are not difficult to set up. Staff is crucial. Some one individual must be responsible. A common procedure is to enlist a representative of each class who has been out of school 25 years or more. The representative writes a letter to each classmate asking that he or she consider placing your institution in his or her will. Amount isn't usually stressed. A return card can be included for those who are willing to report to your office they have taken such action. The card may also have a place for the returnee to request more information about annuity and life income plans.

A special brochure can be offered the class representative each year for enclosure with their letters. Each can refer to reasons for drawing a will, red-flag special problems which could arise, warn of unusual state laws, summarize estate tax tables, and urge everyone to "see your lawyer." Availability of this type of brochure makes it easier for the non-lawyer class representatives to write letters for classmates as they don't bear the burden of offering technical reasons for having a will. Their job is just one of encouraging others to benefit themselves while assisting their alma mater.

A bequest committee provides a great opportunity for volunteer participation. Attorneys should be included because you will need their technical suggestions on material to be covered in brochures and letters, but non-professionals are essential because the major thrust of the program is not legal but charitable. The bequest committee should consider estate planning seminars as further vehicles for widening your circle of friends.

PROGRAM EVALUATION

How does an institution measure the actual value of annuity and life income program? Unfortunately there are no really good answers to that question. The most common proposal is to discount any "deferred gift," using projections of investment income, inflation, and life expectancy of beneficiaries. When the discounted values for all the gifts received in a given year are added together, the total should be eight to ten times the investment in the program for that year. There are two serious flaws to this method. The first is that there is just as much opportunity for growth in the assets of the funds over the span of the agreement as there is opportunity for depletion. We tend to discount for poor management or a bad stock market or the passage of time, but we seldom allow for good management and the very distinct possibility of upward movement in the stock market. Not long ago, an institution which had issued several million dollars worth of gift annuities over a period of years did some research on this subject and discovered it was holding more dollars in reserve for the annuities than had been given to the institution originally. This was true in spite of the fact that the rates followed had been written on the assumption that only 75 percent of the principal would be available at the death of the beneficiaries.

The second problem in this proposed evaluation is in knowing when the donor has ceased making gifts to the institution. A specific illustration involves a man who made an inquiry in 1957, his first gift of $100,000 in 1964, a gift of a life estate in his home in 1968 (now worth almost $100,000), and a gift of close to $1 million in 1973. He is still alive at 93 and has created a trust with principal to the institution on the death of two children (ages 57 and 59). The trust is currently estimated to be worth several million dollars. At any time prior to the gift of $1 million, the cost of his cultivation and gifts would have been much higher than was true after that gift — if we can accurately compute costs attributable to that gift. If, as most development officers claim, the best prospect is a previous donor, and if in fact many annuity and life income donors make more than one gift, particularly when gifts by will are made as the result of good follow-up procedures, it is very doubtful that one can compute the actual cost of all his gifts until after the death of the donor.

Nevertheless, we do need research into the exact evaluation of annuity and life income programs, and it is heartening to note that such research is underway in at least one of the major institutions in our field. In the meantime, we will begin a new program or we will continue an old one on the basis that the dollars we receive are dollars in hand and available in the future; with the knowledge that a carefully devised and administered program produces benefits which can't always be predicted; and with the belief that an annuity and life income program is funded as part of the institutional investment in a balanced development program and not at the expense of other phases of the program. To underwrite an annuity and life income program alone or at the expense of annual giving, major gifts, corporate or foundation giving is not any wiser than, say, offering a natural science program with courses only in botany.

THE KEYS TO A GOOD ANNUITY AND LIFE INCOME PROGRAM

1. *An educational institution of the highest quality.*

2. *Commitment,* beginning with the board of trustees and the president and continuing long enough for the program to prove its worth.

3. *Professional staff* to do a professional job of sales, management, and follow-up.

4. Maximum amount of *personal attention* to prospects and donors.

5. Consideration of the annuity and life income program as *part of a total development program* — nothing more and nothing less.